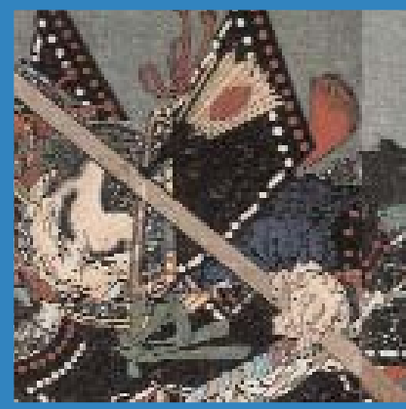

UCLA

2003-2004 ANNUAL FINANCIAL REPORT

C O N T E N T S

Photo by DON COLE

Hornbill figure. Iban people, Sarawak, Borneo, Malaysia, late 19th/early 20th century.
Carved and painted wood. The UCLA Fowler Museum of Cultural History. Gift of the Wellcome Trust.

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UNIVERSITY OF CALIFORNIA, LOS ANGELES

CAMPUS AND FINANCIAL HIGHLIGHTS

(dollars in thousands)	For Fiscal Years Ended June 30	
	2004	2003
Enrollment - Fall Quarter		
Undergraduates	25,715	24,899
Graduates, and Interns and Residents	12,883	12,700
Staff Information		
Full-Time Equivalent		
(includes approximately 5,000 casuals and students)	27,032	27,352
Campus Land Area	419 acres	419 acres
OPERATING AND NONOPERATING REVENUE AND EXPENDITURES:		
Operating Revenue	$ 2,616,661	$ 2,405,247
Nonoperating Revenue	732,383	764,529
	$ 3,349,044	$ 3,169,776
Operating Expense	$ 3,186,190	$ 3,081,629
Nonoperating Expense	34,550	36,479
	$ 3,220,740	$ 3,118,108
Principal Sources of Operating Revenue:		
Student Tuition and Fees	$ 264,126	$ 209,404
Grants and Contracts	795,242	737,370
Sales and Services	1,513,932	1,417,566
Principal Sources of Nonoperating Revenue:		
State Educational Appropriations	$ 572,613	$ 630,271
Principal Operating Expenditures:		
Salaries and Wages	$ 1,699,126	$ 1,650,567
Benefits	312,635	287,385
Supplies and Materials	346,675	349,347
Other Operating Expenditures	518,121	488,180
TOTAL NET ASSETS:		
Total Current Assets	$ 1,468,974	$ 1,255,231
Total Noncurrent Assets	3,467,525	3,212,185
Total Current Liabilities	663,408	663,618
Total Noncurrent Liabilities	637,613	617,422
End of Year Net Assets	3,635,478	3,186,376

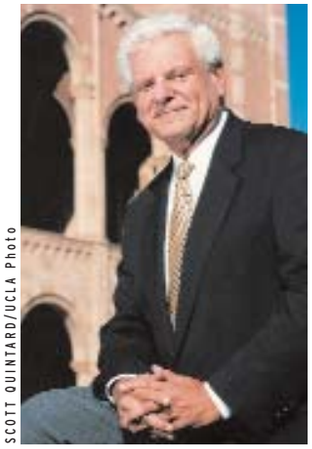
See Notes to Financial Statements.

Although the 2003-2004 academic year brought continued budgetary challenges, UCLA remained a leader among institutions of higher learning as we continued to fulfill our threefold mission of teaching, research, and service.

We received a record 44,941 applications for undergraduate admissions, more than any other university in the nation. In fall 2003, we welcomed 4,300 new freshmen and more than 3,400 transfer students, all of them outstanding.

Our students' many accomplishments confirmed UCLA's ability to recruit and retain the very best and brightest. For example, UCLA senior Saul Villeda, who won a prestigious national science award at the Biomedical Research Conference for Minority Students in New Orleans in November 2002, continued to receive widespread recognition for his research on the spinal cord and co-authored a scientific paper published in the *Journal of Comparative Neurology*.

Our faculty members consistently earn recognition for their outstanding scholarship. In 2003-2004, six received fellowships from the John Simon Guggenheim Memorial Foundation. This prestigious honor was presented to Stuart Banner, professor of law; Cameron D. Campbell, associate professor of sociology; Judith A. Carney, professor of geography; David Roussève, professor and chair of the Department of World Arts and Cultures; Jeffrey Vallance, visiting assistant professor of art; and William R. Zame, professor of economics and mathematics.



SCOTT QUINTARD/UCLA Photo

UCLA continues to innovate in undergraduate education. The *Fiat Lux* and Freshman Cluster programs gave undergraduates access to the diverse knowledge and perspectives of our most distinguished faculty. *Fiat Lux* increased the number of seminars it offered by more than 50 percent, from 126 to 197. Designed to strengthen the intellectual skills of entering freshmen, the Freshman Cluster Program allows students to experience seminars, engage in interdisciplinary study, and learn about faculty research.

Just as we take pride in our students' and faculty members' achievements, we also recognize outstanding individuals beyond the University for their exceptional contributions to society. In spring

2004, we bestowed UCLA's highest honor, The UCLA Medal, on former U.S. Senator George J. Mitchell and businessman and philanthropist George Aratani.

In athletics, 2003-04 was the year of the UCLA women, with women's teams earning NCAA titles in gymnastics, golf, track and field, and softball. These victories helped UCLA maintain its top spot in the nation, with a total of 94 NCAA championships.

Campaign UCLA continued at an extraordinary pace, attracting more than $268 million in private gifts and grants last year. We now have raised more than $2.6 billion, exceeding our goal of $2.4 billion; the Campaign continues through 2005.

Recruiting and retaining the very best faculty and students remains a top priority for UCLA. In June, I announced the Ensuring Academic Excellence initiative, an ambitious plan to raise $250 million over the next five years to enable us to continue to attract and retain the finest scholars.

Giving back to the community is an integral part of UCLA's mission. In 2003-2004, our Center for Community Partnerships made 32 grants to Los Angeles and campus organizations, further confirming our commitment to partnering with the people of Greater Los Angeles.

The following pages illustrate UCLA's fiscal soundness. We look forward with confidence to the continuing success of our students, faculty, staff, and programs. With the continuing support of our alumni and friends, UCLA will remain one of the premier universities in the nation.

Albert Carnesale
Chancellor

Photo by DON COLE

Epa headdress. Yoruba people, Nigeria, late 19th/early 20th century. Carved and painted wood, metal, plant fiber and plant gum. The UCLA Fowler Museum of Cultural History. Gift of the Wellcome Trust.

The objective of Management's Discussion and Analysis is to help readers of the Financial Statements of the University of California, Los Angeles (UCLA), better understand the financial position and operating activities for the fiscal year ended June 30, 2004, with selected comparative information for the year ended June 30, 2003. This discussion should be read in conjunction with the Transmittal Letter, the Financial Statements and the Notes to Financial Statements.

USING THIS ANNUAL REPORT

The UCLA Annual Financial Report, while not separately audited, is prepared from the official University of California records and accounts, which are maintained in accordance with the standards prescribed by the Governmental Accounting Standards Board. The accounts of the UCLA campus are consolidated with those of other University of California system campuses, medical centers, research laboratories, and retirement and investment funds and are included in the annual audit performed on those consolidated statements. Management's Discussion and Analysis and the accompanying Financial Statements detail only UCLA campus activity and exclude investments, the campus' portion of pooled debt and the retirement system, which are accounted for on a systemwide basis.

THE LOS ANGELES CAMPUS OF THE UNIVERSITY OF CALIFORNIA

The University of California (the University) is a public, state-supported institution. The University's financial statements are presented as a discrete component of the state's general-purpose financial statements. Additionally, the University's consolidated financial statements, including 10 campuses, five medical centers, a statewide agricultural extension program, the University of California Retirement System and certain operational results of three major Department of Energy laboratories, are subjected to an independent annual audit.

The following chart reflects the operating and nonoperating revenues and expenditures of the various campuses, along with systemwide programs and administration, for the 2003-'04 fiscal year:

OPERATING AND NONOPERATING REVENUES AND EXPENDITURES: ALL CAMPUSES *(in thousands)*

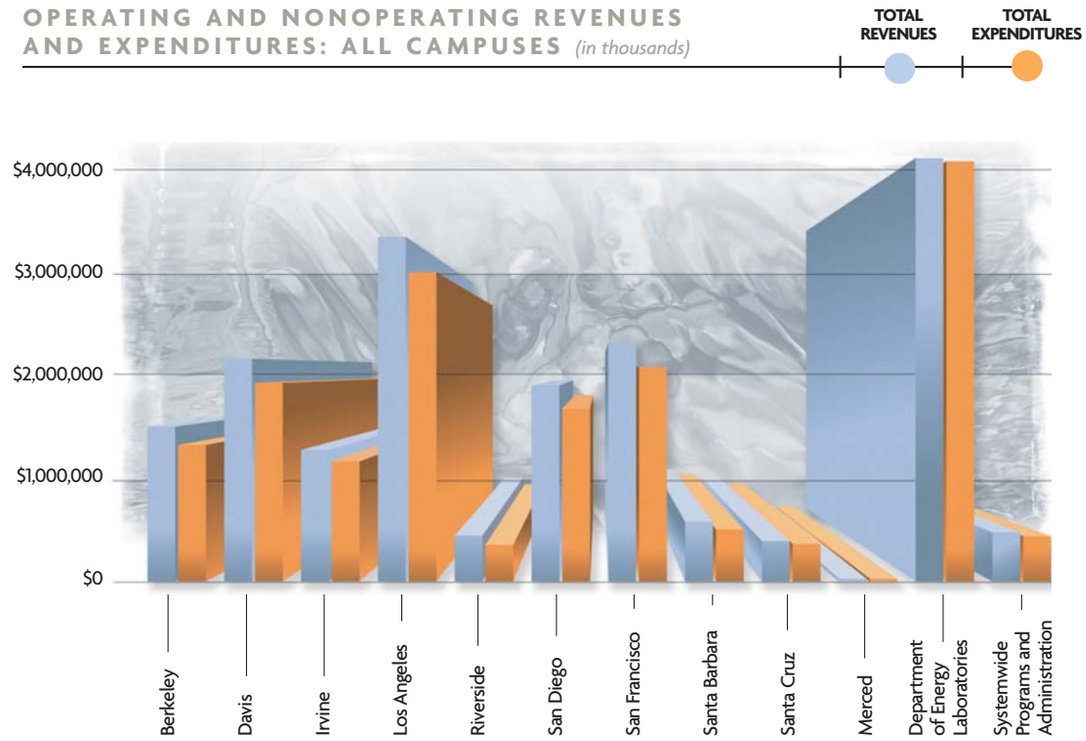


Photo by DON COLE

Janus-headed figure. Lega people, Democratic Republic of Congo, 18th-19th century. Carved ivory and cowrie shells. The Jay T. Last Collection. The UCLA Fowler Museum of Cultural History.

The Los Angeles campus of the University of California was founded in 1919 and is financially the largest campus in the 10-campus University of California system, with an annual budget that exceeds $3 billion. The financial statements included in this annual report encompass the following:

Campus – The Los Angeles campus of the University of California spans 419 acres in Westwood and is devoted to undergraduate and graduate scholarship serving more than 38,000 students in the following schools:

COLLEGE OF LETTERS AND SCIENCE
Humanities
Life Sciences
Physical Sciences
Social Sciences
Honors and Undergraduate Programs
UCLA International Institute

PROFESSIONAL SCHOOLS
School of the Arts and Architecture
School of Dentistry
Graduate School of Education & Information Studies
The Henry Samueli School of Engineering and Applied Science
School of Law
The Anderson School of Management
The David Geffen School of Medicine at UCLA
School of Nursing
School of Public Health
School of Public Affairs
School of Theater, Film and Television

The campus' academic departments and interdepartmental programs schedule more than 2,000 courses each quarter for the benefit of our students. Known for academic excellence, many of UCLA's programs are rated among the best in the nation and some among the best in the world.

The campus' mission also includes research and public service. The UCLA community focuses on challenges in environmental issues, economic and social policy concerns, public education reform, health care costs and medical advances. More than 5,000 research projects are being conducted on campus at any given time. The campus also received $560 million in research funding and ranked fifth, for dollars received, in the last federal sciences and engineering support survey, published for fiscal year 2001-2002.

UCLA employs more than 27,000 faculty, administrators and staff (including casuals and students) and spent more than $2 billion in compensation costs for the fiscal year ended June 30, 2004. UCLA's employees are distinguished for their contributions to education, research and public service. Nobel Prizes have been awarded to five faculty members, in chemistry, physics and medicine (and to alumni in economics and chemistry, with one alumnus receiving the Nobel Peace Prize in 1950). UCLA faculty are also recipients of nine National Medals of Science, more than 160 Fullbright Scholarships, nearly 115 Sloan Research Fellowships and 277 cumulative Guggenheim Fellowships.

UCLA Live (performing arts), the UCLA Fowler Museum of Cultural History, the UCLA Hammer Museum and the Geffen Playhouse make UCLA the leading arts and cultural center of the West.

The campus' physical plant includes 280 buildings, 21 parking structures, 22 surface parking lots, 13 libraries housing more than 7.9 million volumes, a cogeneration power plant, on-campus student housing for more than 7,200 students, off-campus student and faculty apartments, and more.

Medical Center – The UCLA Medical Center, the UCLA Neuropsychiatric Hospital and Santa Monica Hospital make up the UCLA hospital system, serving people from Los Angeles, across the country and around the world. The medical center is the primary teaching hospital for the David Geffen School of Medicine at UCLA. It has been ranked the "Best Hospital in the West" by *U.S. News & World Report* for the past 15 years. UCLA continues construction of a technologically innovative 525-bed hospital to replace its existing medical center, a 1951 vintage structure weakened in the 1994 Northridge earthquake. The approved budget for the project tops $670 million. Slated to open by the end of 2005, the 10-story structure will combine the operations of the UCLA Medical Center, the UCLA Neuropsychiatric Hospital and Mattel Children's Hospital at UCLA.

ASUCLA – The Associated Students of UCLA (ASUCLA) operates the UCLA store and oversees student activities for the Los Angeles campus pursuant to the Statement of Understanding of ASUCLA's Relationships with the University, dated June 28, 1974. ASUCLA's financial data, representing total revenue of approximately $61.1 million for the fiscal year ended June 30, 2004, have also been included to reflect the total financial activity of the UCLA campus.

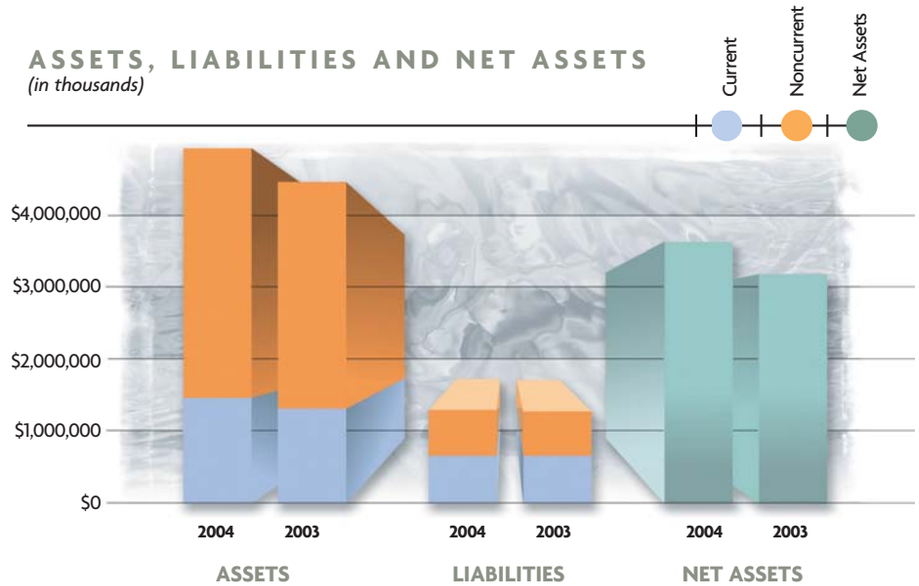
The UCLA Foundation – The foundation is a nonprofit, public-benefit corporation organized for the purpose of accepting and administering the full range of private contributions for the campus. The financial activities of the separately incorporated foundation *are not* reflected in the campus' records until such time as gifts are transferred from the foundation to the campus. However, in compliance with Statement No. 39 of the Governmental Accounting Standards Board, which went into effect on July 1, 2003, the foundation's financial activity can be found discretely recorded on the campus' financial statements under a separate column titled "Foundation."

An Overview – While UCLA's financial information will be discussed in further detail in the subsequent sections of Management's Discussion and Analysis, the following table depicts the relative enrollment, the number of full-time equivalent employees and expenses by organization to reflect the composition of UCLA.

(dollars in thousands)	Undergraduate	Graduate	Full-Time Equivalent (Includes Students)	Salaries	Other Expenditures	Total Expenditures
Organizations	**Fall Enrollment**		**Employees**	**Operating Expenses**		
College of Letters and Science	21,910	2,883	3,478	$ 211,806	$ 98,470	$ 310,276
School of the Arts and Architecture	798	407	434	23,632	14,978	38,610
School of Dentistry	-	460	355	25,825	17,994	43,819
School of Education & Information Studies	-	962	514	32,101	18,756	50,857
School of Engineering and Applied Science	2,594	1,489	883	54,674	43,034	97,708
School of Law	-	972	204	19,070	9,597	28,667
School of Management	-	1,420	330	29,173	17,932	47,105
School of Medicine	-	2,423	6,480	476,631	255,643	732,274
School of Nursing	38	290	90	5,881	3,532	9,413
School of Public Health	-	713	353	22,906	19,791	42,697
School of Public Affairs	-	457	154	10,624	4,590	15,214
School of Theater, Film and Television	375	407	234	13,824	6,148	19,972
Continuing Education	-	-	320	23,545	18,644	42,189
Hospitals	-	-	6,614	375,509	494,954	870,463
All Others	-	-	6,589	373,925	280,869	654,794
Subtotal Organizations	25,715	12,883	27,032	1,699,126	1,304,932	3,004,058
Depreciation Expense					170,344	170,344
Other Operational Expenditures					11,788	11,788
Total	25,715	12,883	27,032	$ 1,699,126	$ 1,487,064	$ 3,186,190

THE CAMPUS' FINANCIAL POSITION

The statement of net assets presents the financial position of the campus at the end of the fiscal year. It displays all of the assets and liabilities of the campus accounted for on a local level. The difference between assets and liabilities is net assets, representing a measure of the current financial condition of the campus. At June 30, 2004, the campus' assets were $4.9 billion, liabilities were $1.3 billion and net assets were $3.6 billion, an increase of $449 million from 2003.



The major components of the assets, liabilities and net assets, compared to the prior year, are as follows (*dollars in thousands*):

	2004	2003	Change
ASSETS			
Cash and investments	$ 966,591	$ 799,201	$ 167,390
Accounts receivable, net	438,924	455,121	(16,197)
Capital assets, net	3,265,838	2,864,869	400,969
Other assets	265,146	348,225	(83,079)
Total assets	$ 4,936,499	$ 4,467,416	$ 469,083
LIABILITIES			
Current liabilities	$ 663,408	$ 663,618	$ (210)
Long-term debt	514,707	494,929	19,778
Other noncurrent liabilities	122,906	122,493	413
Total liabilities	$ 1,301,021	$ 1,281,040	$ 19,981
NET ASSETS			
Invested in capital assets, net of related debt	$ 2,824,567	$ 2,478,045	$ 346,522
Restricted:			
Nonexpendable	-	-	-
Expendable	271,927	296,004	(24,077)
Unrestricted	538,984	412,327	126,657
Total net assets	$ 3,635,478	$ 3,186,376	$ 449,102

THE CAMPUS' ASSETS

Long-term investments, the campus' portion of pooled debt and the retirement system are accounted for on a systemwide basis through the Office of the President and are not reflected in UCLA's stand-alone financial statements. UCLA does participate in a temporary investment pool that is administered by the Office of the President, and the balance in this pool is reflected as part of the campus' assets on UCLA's financial statements. These funds are primarily invested in U.S. Treasury securities, commercial paper and short-term corporate notes with cost approximating market value. The amount invested in this short-term investment pool at June 30, 2004, totaled $945.8 million, an increase of $163 million from the previous year, primarily due to the timing of cash needs from one year to the next.

Accounts receivable decreased to $439 million in 2004, down from $455 million in 2003. Accounts receivable include those from the state and federal governments, those associated with the medical center that are related to patient care, those from investment activity and others, including those related to local and private grants and contracts, and student fees. The $16 million decrease is attributed to the collection, in the current year, of $48 million of state and federal government funds for prior-year receivables that had been established mainly for federally funded capital projects, offset by an increase in current-year outstanding billing activity of $21 million from the medical center and $11 million from other sources.

Capital assets include land, infrastructure, buildings and improvements, equipment, libraries, special collections and construction in progress. The original cost of capital assets increased by $515 million to $5.2 billion in 2004, consisting of capital asset acquisitions of $586.1 million, partially offset by $70.6 million of capital assets disposed of during the year in the ordinary course of business. Capital asset acquisitions in 2003 were $501.9 million and asset disposals were $51.8 million. During 2004, capitalized costs for completed projects included $109.4 million for new buildings and improvements to existing buildings, $121.7 million for new equipment, $17.6 million for libraries and collections, and $2.67 million for land and infrastructure. This included the completion of both De Neve Plaza, with its six residential buildings, dining room and auditorium, and the Intramural Field Parking Structure, providing 1,200 additional subterranean parking spaces on two levels beneath the Intramural Field. At the end of 2004, the increase from 2003 in the cost of projects under construction, net of the costs of those projects completed and reclassified during 2004 to buildings and improvements or equipment, totaled $334.7 million, bringing construction in progress to $1.2 billion. This includes the Westwood Replacement Hospital (estimated completion 2005-'06), the Santa Monica Replacement Hospital (estimated completion 2006-'07) and the remainder of the Weyburn Terrace housing project and parking structure (estimated completion 2004-'05).

Accumulated depreciation increased from $1.86 billion in 2003 to $1.98 billion in 2004. Depreciation expense for the year was $170.3 million, and the accumulated depreciation on assets sold or disposed of during the year was $55.8 million. The majority of the disposals were for equipment that was fully depreciated or had reached the end of its useful life.

Other assets of $265 million at June 30, 2004 (a decrease of $83 million from 2003), included inventories, deferred charges, and notes and mortgages receivable. The payout of state public works bonds to fund construction work for the replacement hospitals accounted for $54 million of the decrease.

THE CAMPUS' LIABILITIES

Current liabilities of the campus consist largely of accounts payable to vendors for goods and services, accrued compensation costs due to employees for services performed, deferred revenue and current portions of long-term debt utilized to finance capital assets. The accounts payable for the campus consist of amounts due to vendors for goods and services received for general operation of the campus and medical center and for capital assets. Overall accounts payable showed a slight increase to $276 million in 2004 from $273 million in 2003. Accrued salaries and benefits showed a decrease of $9.6 million during 2004, a direct result of vacation leave used during the first closure of the campus between the Christmas and New Year's holidays.

Long-term debt, used for capital expenditures, is financed by a variety of sources, including University equity contributions, federal and state support, revenue bonds, certificates of participation, bank loans and leases. Commercial paper provides interim financing. The campus' portion of pooled debt is accounted for on a Universitywide basis. Other debt used to finance capital assets, and accounted for locally as noncurrent long-term debt, grew from $495 million at the end of 2003 to $515 million at the end of 2004, an increase of $20 million. This increase resulted mainly from the new equipment lease obligations for the Westwood and Santa Monica replacement hospitals.

Other noncurrent liabilities, including federal refundable loans, remained relatively consistent between years.

THE CAMPUS' NET ASSETS

Net assets represent the residual interest in the campus' assets after all liabilities are deducted. During the year, the campus' net assets increased by $449 million, bringing the year-end total to $3.6 billion. Net assets are reported in four major categories: invested in capital assets, net of related debt; restricted nonexpendable; restricted expendable; and unrestricted.

The portion of net assets invested in capital assets, net of accumulated depreciation and related outstanding debt used to finance the acquisition, construction or improvement of these capital assets, grew from $2.5 billion in 2003 to $2.8 billion in 2004. The increase of $346 million closely corresponds to the increase in capital assets and investments held by trustees, less the increase in long-term debt and depreciation of capital assets.

The campus reflects a zero balance in restricted nonexpendable net assets, as endowments and charitable remainder trusts are accounted for on a systemwide basis and are excluded from UCLA's financial statements.

Restricted expendable net assets, which totaled $272 million in 2004, down from $296 million in 2003, are subject to externally imposed restrictions governing their use. These net assets may be spent only in accordance with the restrictions placed upon them and may include support received from gifts, appropriations, grants or contracts for specific programs or capital projects; trustee-held investments; or other third-party receipts. The decrease of $24 million for the year was attributed to a $19 million reduction in debt service fund balances, primarily due to refinancing of the cogeneration plant and the replacement hospital, and a $5 million decline in capital projects' restricted assets.

Under generally accepted accounting principles, net assets that are not subject to externally imposed restrictions governing their use must be classified as unrestricted for financial reporting purposes. Although unrestricted net assets are not subject to externally imposed restrictions, substantially all of these net assets are designated internally and are allocated for academic and research initiatives or programs, or for capital purposes. As of June 30, 2004, unrestricted net assets were $539 million, an increase of $127 million from the previous year.

Banksia serrata, from *Banks' Florilegium: a publication in thirty-four parts of seven hundred and thirty-eight copperplate engravings of plants collected on Captain James Cook's first voyage round the world in H.M.S. Endeavour, 1768-1781*, by Sir Joseph Banks, et al. London: Alecto Historical Editions, in association with the British Museum (Natural History), 1980-1988. The Louise M. Darling Biomedical Library.

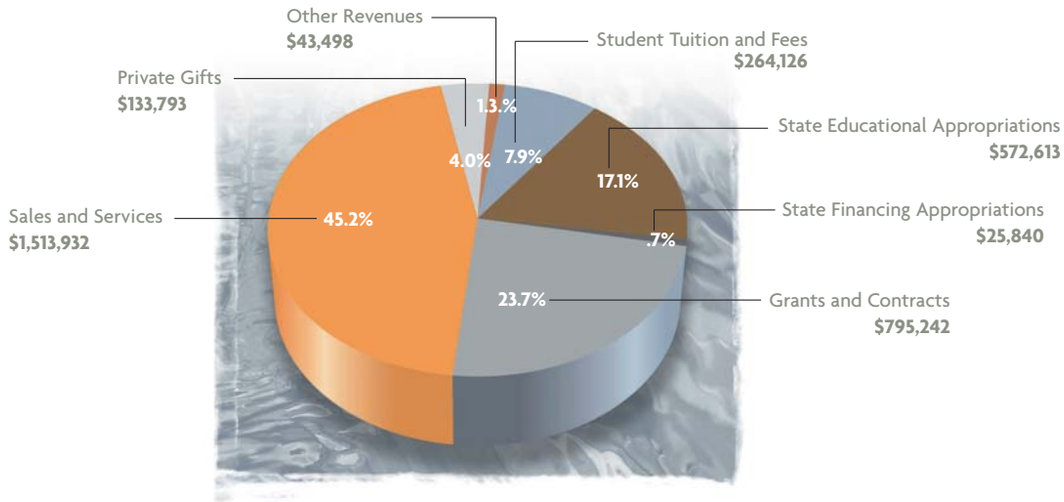
THE CAMPUS' RESULTS OF OPERATIONS

The statement of revenues, expenses and changes in net assets is a presentation of the campus' operating results for the year. It indicates whether the financial condition has improved or deteriorated. In accordance with Governmental Accounting Standards Board (GASB) requirements, certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the campus, including state educational appropriations, private gifts and investment income, are mandated to be recorded as nonoperating revenues.

The following chart displays the categories of both operating and nonoperating revenues that support core activities, as of June 30, 2004:

REVENUES SUPPORTING CORE ACTIVITIES

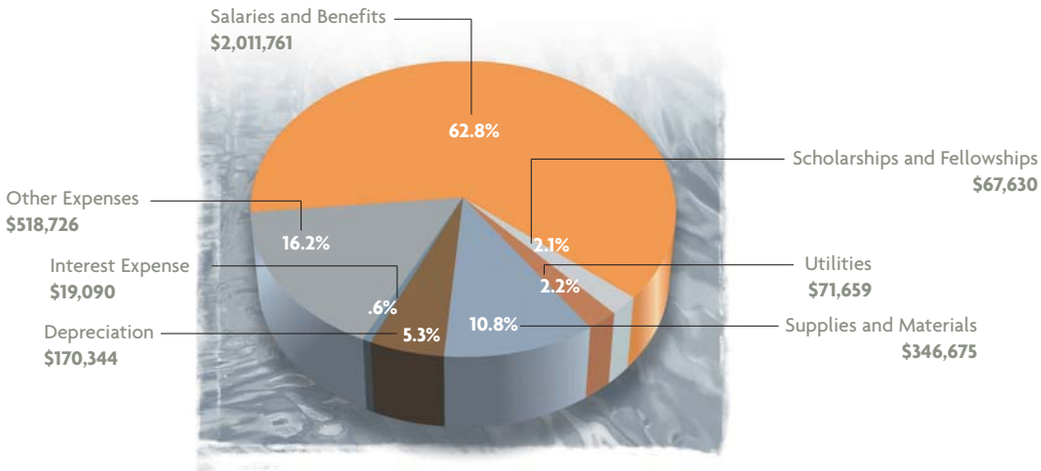
(in thousands)



The following chart displays the portion of operating and nonoperating expenses related to core activities of the campus, as of June 30, 2004:

EXPENSES ASSOCIATED WITH CORE ACTIVITIES

(in thousands)



Below is a summarized comparison of the operating results for 2004 and 2003, arranged in a format that matches the revenues supporting the core activities of UCLA with the expenses associated with core activities (*dollars in thousands*):

	YEAR ENDED JUNE 30, 2004			YEAR ENDED JUNE 30, 2003			
	Operating	Nonoperating	Total	Operating	Nonoperating	Total	Change
REVENUES							
Student tuition and fees, net	$ 264,126	$ -	$ 264,126	$ 209,404	$ -	$ 209,404	$ 54,722
State educational appropriations	-	572,613	572,613	-	630,271	630,271	(57,658)
State financing appropriations	-	25,840	25,840	-	14,289	14,289	11,551
Grants and contracts	795,242	-	795,242	737,370	-	737,370	57,872
Sales and services, net	1,513,932	-	1,513,932	1,417,565	-	1,417,565	96,367
Private gifts	-	133,793	133,793	-	119,674	119,674	14,119
Other revenues	43,361	137	43,498	40,908	295	41,203	2,295
Revenues supporting core activities	2,616,661	732,383	3,349,044	2,405,247	764,529	3,169,776	179,268
EXPENSES							
Salaries and benefits	2,011,761	-	2,011,761	1,937,952	-	1,937,952	73,809
Scholarships and fellowships	67,630	-	67,630	73,827	-	73,827	(6,197)
Utilities	71,659	-	71,659	68,374	-	68,374	3,285
Supplies and materials	346,675	-	346,675	349,347	-	349,347	(2,672)
Depreciation	170,344	-	170,344	163,949	-	163,949	6,395
Interest expense	-	19,090	19,090	-	22,790	22,790	(3,700)
Other expenses	518,121	605	518,726	488,180	4,158	492,338	26,388
Expenses associated with core activites	3,186,190	19,695	3,205,885	3,081,629	26,948	3,108,577	97,308
Income (loss) from core activities	(569,529)	712,688	143,159	(676,382)	737,581	61,199	81,960
Transfers to (from) core activites	-	(28,525)	(28,525)	-	(32,882)	(32,882)	4,357
Net income (loss) from core activities	$ (569,529)	$ 684,163	114,634	$ (676,382)	$ 704,699	28,317	86,317
OTHER NONOPERATING ACTIVITIES							
Net appreciation in fair value of investments			(10)			(92)	82
Loss on disposal of capital assets, net of proceeds			(14,845)			(9,440)	(5,405)
Income (loss) before other changes in net assets			99,779			18,785	80,994
OTHER CHANGES IN NET ASSETS							
State capital appropriations			36,189			9,382	26,807
Capital gifts and grants			142,047			221,396	(79,349)
Transfers to (from) capital accounts			171,087			53,762	117,325
Increase in net assets			449,102			303,325	145,777
NET ASSETS							
Beginning of year			3,186,376			2,883,051	303,325
End of year			$ 3,635,478			$ 3,186,376	$ 449,102

REVENUES ASSOCIATED WITH CORE ACTIVITIES

Revenues to support UCLA's core activities, including those classified as nonoperating revenues, grew from $3.17 billion in 2003 to $3.35 billion in 2004, an increase of $179 million. The campus has very diversified sources of revenue. State of California educational appropriations, in conjunction with student tuition and fees, are the core components that support the instructional mission of UCLA. Grants and contracts provide opportunities for undergraduate and graduate students to participate in basic research alongside some of the most prominent researchers in the country. Gifts to the campus allow crucial flexibility to faculty for support of their fundamental activities or new academic initiatives. Sales and service revenue includes the medical center, educational activities and auxiliary enterprises such as student housing, food services operations and parking.

Categories of revenues, as well as activity trends, are described below:

Revenues (in thousands)	2004	Percent of Total	2003	Percent of Total	Variance	Change Over Prior Year
Student tuition and fees, net	$ 264,126	7.89%	$ 209,404	6.61%	$ 54,722	26.1%
State appropriations	598,453	17.87%	644,560	20.33%	(46,107)	-7.2%
Grants and contracts	795,242	23.75%	737,370	23.26%	57,872	7.8%
Sales and services, net	1,513,932	45.20%	1,417,565	44.72%	96,367	6.8%
Private gifts	133,793	3.99%	119,674	3.78%	14,119	11.8%
Other operating revenues, net	43,498	1.30%	41,203	1.30%	2,295	5.6%
Total	$ 3,349,044	100.00%	$ 3,169,776	100.00%	$ 179,268	5.7%

Student Tuition and Fees revenue, net of scholarship allowances, grew by $54.7 million, from $209.4 million in 2003 to $264 million in 2004, a 26.1% increase. The increase consists of $73 million from the rise in student fees and a 2.7% increase in fall enrollment, offset by an $18.3 million increase in student financial aid distribution. To compensate for further state budget cuts to the University's general funds, and to avoid reducing instructional programs, mandatory systemwide student fees were increased by 30% above the previous fee level, which reflected the $405 annualized increase that began during the spring 2003 term.

State Appropriations (in thousands)	2004	2003	Variance	Change Over Prior Year
State educational appropriations	$ 572,613	$ 630,271	$ (57,658)	-9.1%
State financing appropriations	25,840	14,289	11,551	80.8%
Total	$ 598,453	$ 644,560	$ (46,107)	-7.2%

State Appropriations consists of two components, educational and financing. Educational appropriations from the State of California decreased by $57.7 million to $572.6 million in 2004, a drop of 9.1%. This decline in state support was the result of budget cuts to the University, due to the major state budget deficit.

State financing appropriations are directly related to the required rental payments under lease-purchase agreements with the State of California, which increased in 2004 by slightly more than $11.5 million to $25.8 million.

Grants and Contracts (in thousands)	2004	2003	Variance	Change Over Prior Year
Federal	$ 574,534	$ 521,985	$ 52,549	10.1%
State	52,262	54,804	(2,542)	-4.6%
Private	138,069	131,532	6,537	5.0%
Local	30,377	29,049	1,328	4.6%
Total	$ 795,242	$ 737,370	$ 57,872	7.8%

G*rants and Contracts* revenue from federal, state, private and local sources increased by $57.9 million during 2004 to $795 million. Federal grant and contract revenue, including facilities and administration cost recovery of $124.4 million, direct expenditures of $431 million and receipts in excess of expenditures of $19.1 million, grew by $52.5 million to $574.5 million. This revenue represents support from a variety of agencies: the Department of Health and Human Services, $376.2 million; the National Science Foundation, $45 million; the Department of Education, $46 million; the Department of Veterans Affairs, $21.6 million; the Department of Energy, $21 million; and other federal agencies, $64.7 million. State contracts decreased from $54.8 million in 2003 to $52.2 million in 2004. Private contract and grant funds increased by $6.5 million to $138 million, and local contracts and grants grew by $1.3 million to $30.3 million in 2004.

Sales and Services (in thousands)	2004	2003	Variance	Change Over Prior Year
Medical centers	$ 898,510	$ 839,530	$ 58,980	7.0%
Educational activities	386,861	351,672	35,189	10.0%
Auxiliary enterprises, net	228,561	226,364	2,197	1.0%
Total	$ 1,513,932	$ 1,417,566	$ 96,366	6.8%

Sales and Services revenue represents revenue from medical centers, educational activities and auxiliary enterprises, net of scholarship allowance. This revenue increased to $1.5 billion in 2004 from $1.4 billion in 2003, a total increase of $96 million. More than half of this increase is due to medical center revenue growth of $59 million over the prior year to $898.5 million. The revenue growth is primarily due to a combination of rate increases and an increase in patient activity. Sales from educational activities, primarily physicians' professional fees, grew by $35 million to a total of $386.9 million. Sales from auxiliary enterprises showed a slight increase, from $226 million in 2003 to $228 million in 2004, primarily due to the reopening of 412 beds at Sunset Village after water-damage repairs were completed.

Private Gifts, mainly restricted as to use, increased by 11.8% over 2003 to $133.8 million in 2004. While the nation's economy and the decline in equity markets have had a substantial effect on charitable giving, UCLA has experienced continued success in acquiring private gifts through the ongoing efforts of its fundraising campaign. In addition to private gifts for operating purposes, gifts were also received for capital purposes; these are recorded as capital gifts and grants.

Other Operating Revenues, net of scholarship and other allowances, which totaled $43.5 million for 2004, come from a variety of sources, including the Arthur Ashe Student Health and Wellness Center, UCLA Live, the Department of Cultural and Recreational Affairs, and parking fines and forfeitures. These revenues were up 5.6% over 2003.

EXPENSES ASSOCIATED WITH CORE ACTIVITIES

UCLA's expenses associated with core activities for 2004, including those classified as nonoperating expenses, totaled $3.2 billion, up $97 million from $3.1 billion in 2003. Almost two-thirds, 63%, of UCLA's core expenses are related to salaries and benefits of academic and administrative staff working on behalf of the University. Other expenses are related to goods and services used for operation of the core activities of the campus, depreciation of capital assets, and scholarship and fellowship payments to students.

Categories of expenses, as well as activity trends, are described below:

Expenses (in thousands)	2004	Percent of Total	2003	Percent of Total	Variance	Change Over Prior Year
Salaries and benefits	$ 2,011,761	62.75%	$ 1,937,952	62.34%	$ 73,809	3.8%
Scholarships and fellowships	67,630	2.11%	73,827	2.38%	(6,197)	-8.4%
Utilities	71,659	2.24%	68,374	2.20%	3,285	4.8%
Supplies and materials	346,675	10.81%	349,347	11.24%	(2,672)	-0.8%
Depreciation	170,344	5.31%	163,949	5.27%	6,395	3.9%
Interest expense	19,090	0.60%	22,790	0.73%	(3,700)	-16.2%
Other expenses, net	518,726	16.18%	492,338	15.84%	26,388	5.4%
Total	$ 3,205,885	100.00%	$ 3,108,577	100.00%	$ 97,308	3.1%

Salaries and Benefits grew by $73.8 million to $2 billion in 2004 ($1.7 billion in salaries and wages and $312.6 million in benefits), an increase of 3.8% from 2003. There are nearly 37,000 employees filling a total of approximately 27,000 full-time equivalent positions. Academic wages increased by $22.6 million as a result of contract and grant activity and the addition of new researchers. Staff wages increased by $15.5 million, which is attributed to the medical center.

Scholarships and Fellowships, payments of financial aid made directly to students and reported as an operating expense, totaled $67.6 million in 2004, 8.4% less than 2003. Scholarship allowances, financial aid, fee waivers by the campus and third-party payments to the University on behalf of students increased in 2004 by 37% to $96.2 million. However, scholarship allowances are reported as an offset to revenue, not as an operating expense. On a combined basis, financial aid to students in all forms grew from $144 million in 2003 to $164 million in 2004, an increase of $20 million, or 13%.

Utility costs showed a 4.8% increase from the prior year to $71.7 million. UCLA continues to work on energy saving measures already adopted by the University. The University's Energy Conservation Task Group continues to develop further recommendations for reducing energy consumption.

Supplies and Materials, net of elimination of capitalization, showed a slight decrease of 0.8% from the prior year to $347 million.

Depreciation and Amortization expenses increased from $164 million in 2003 to $170 million in 2004. The $6 million increase is mainly due to the depreciation of equipment for campus and the hospitals.

Interest Expense, reported as a nonoperating expense, decreased to $19 million in 2004, a $3.7 million drop from 2003. The decrease relates directly to the payout on State Public Works Board bonds, which reduced interest payments by $6.3 million. This was offset by interest payments of $2.6 million on state capital leases.

Other Expenses Supporting Core Activities rose by $26.3 million to $518.7 million, an increase of 5.4% over 2003, with $23 million of the increase attributed to patient care.

OTHER NONOPERATING ACTIVITIES

UCLA's nonoperating activities that are generally non-cash transactions, and therefore not available to be used to support operating expenses, include the net appreciation or depreciation in the fair value of investments and the gain or loss on the disposal of capital assets.

Since the majority of investment activity is recorded at a systemwide level, the appreciation and depreciation of the fair market value investments is not significant from year to year.

Routine disposals and write-offs of capital assets resulted in an increase to expense totaling $14.8 million in 2004, compared with $9.4 million in 2003. The major portion of the expense for 2004 was related to disposal of capital equipment. Useful lives of equipment are assigned at the time of acquisition based on an established useful life table; equipment is fully depreciated when the accumulated depreciation equals the acquisition value. Equipment is written off at the time of disposal.

OTHER CHANGES IN NET ASSETS

Similar to the other nonoperating activities discussed above, other changes in net assets are generally not available to support UCLA's operating expenses in the current year. State capital appropriations and capital gifts and grants may only be used for the purchase or construction of the specified capital assets.

UCLA's required enrollment growth necessitates new facilities, in addition to continuing needs for renewal, modernization and seismic correction of existing facilities. Capital appropriations from the state increased by $26.8 million, from $9.4 million in 2003 to $36.2 million in 2004. This rise reflects an increase of funding for the Health Sciences Seismic Replacement building, the CNSI Court of Science building (part of the California NanoSystems Institute) and the Dance Building seismic renovation. Capital appropriations from gifts and grants were $142 million in 2004, down from $221 million in 2003. The $79 million drop is mainly attributed to a $92.6 million decrease in federal grants as a result of lower expenditures against Federal Emergency Management Agency (FEMA) funding for the replacement hospitals, partially offset by a $14.1 million increase in private capital gifts and grants.

Campus transfers totaled $142.5 million for 2004, an increase of $121.7 million from 2003. The majority of the activity can be associated with indirect cost recovery, intercampus transfers and retirement of indebtedness.

The indirect cost recovery from facilities and administrative costs of contract and grant activity totaled $144.2 million, an increase of $10.6 million over the prior year. These funds are transferred to the Office of the President as part of the closing processes and then reallocated at a designated rate to the campus in the new year. The University has an agreement with the state regarding the disbursal of federal reimbursement. Approximately 20% of the reimbursement accrues directly to the University for costs related to federal contract and grant activity, and this is the source of the University's off-the-top overhead funds. The remaining 80% of the federal reimbursement is used in two ways: 55% is budgeted as University general funds and is used, along with state general funds, to help fund the University's budget. The remaining 45% is the source of the University Opportunity Fund.

Intercampus transfers totaled $228.1 million for 2004, an increase of $53.7 million from 2003. This includes the allotment of indirect cost funds from the prior year's recovery, transfers of funding between campuses for related projects and short-term investment income.

Retirement of indebtness fund transfers totaled $117 million for 2004, an increase of $158 million from 2003. This increase resulted from the full redemption of the certificate of participation issued to the Los Angeles Chiller/Cogeneration facility. The redemption of the outstanding balance was made from general revenue bonds that are now held at the Office of the President.

THE CAMPUS' CASH FLOWS

The statement of cash flows presents the significant sources and uses of cash. UCLA's cash, primarily held in demand deposit accounts, is minimized by sweeping available cash balances into investment accounts managed by the Office of the President on a daily basis.

A summary comparison of cash flows for 2004 and 2003 is as follows (*dollars in thousands*):

	2004	2003	Change
Cash received from operations	$ 2,559,782	$ 2,366,190	$ 193,592
Cash payments for operations	(2,977,698)	(2,878,437)	(99,261)
Net cash used by operating activities	(417,916)	(512,247)	94,331
Net cash provided by noncapital financing activities	704,721	742,856	(38,135)
Net cash used by capital and related financing activities	(262,062)	(271,557)	9,495
Net cash provided by investing activities	-	45	(45)
Intercampus and transfer activities	142,562	20,880	121,682
Net (decrease) increase in cash	167,305	(20,023)	187,328
Cash, beginning of year	799,171	819,194	(20,023)
Cash, end of year	$ 966,476	$ 799,171	$ 167,305

UCLA's cash in demand deposit accounts increased by $167 million, from $799 million in 2003 to $966 million in 2004. Just less than $418 million was used for operating activities, offset by $705 million in cash provided by noncapital financing activities. Noncapital financing activities, as defined by the GASB, include state educational appropriations and gifts received for other than capital purposes that are used to support operational activities.

Cash of $262 million was used for capital and related financing activities, primarily for purchases of capital assets and principal and interest payments, partially offset by sources that include state and federal (FEMA) capital appropriations, gifts for capital purposes and new external financing.

Cash received from investing activities decreased by $45 million during 2004. There was no sale of investment real estate during 2004.

LOOKING FORWARD

The campus', and the University's, quality is a hallmark for the State of California and the nation. The excellence of UCLA's programs attracts the best students; leverages hundreds of millions of dollars in state, federal and private funding; and promotes discovery of new knowledge that fuels economic growth.

While the long-term prospects for the State of California remain favorable, the state still grapples with a large budget gap. After years of major budget cuts to the University, Governor Arnold Schwarzenegger, UC President Robert Dynes and CSU Chancellor Charles Reed have reached an agreement on a compact outlining their intentions for state funding levels and institutional accountability in the University of California and California State University systems over the next several years. Under the agreement with the governor, the University will still sustain significant budget cuts in the 2004-'05 fiscal year. The agreement provides for annual growth in state funding for core activities at the University, beginning in the 2005-'06 fiscal year and extending through the 2010-'11 fiscal year.

Under the governor's plan, the University's state-funded operating budget would decreased by 7% for 2004-'05. Of the cuts being allocated to UC, UCLA will absorb some $33.5 million in permanent funding reductions, with an additional $13.1 million in other unfunded needs, bringing the total shortfall in state resources for UCLA to $46.6 million.

To respond to these cuts and preserve the quality of the University's student instructional program, mandatory systemwide fees for California resident undergraduates in 2004-'05 will increase by $700 (14%). Fee increases for resident graduate academic students, originally proposed at 40%, have been halved to 20%, representing an increase of $1,050. Nonresident students will see comparable increases in fees, as well as a 20% increase in nonresident tuition. Professional school fees will increase roughly 30% for each degree, with nursing students exempt at the state's request. These fee increases will generate approximately $31.5 million in new revenue.

In other areas, the campus remains highly competitive in terms of attracting federal grant and contract revenue, with fluctuations in UCLA's share closely paralleling trends in budgets of federal research-granting agencies. The majority of UCLA's research revenue comes from the Department of Health and Human Services. Other significant research funding is awarded from the Department of Education, the National Science Foundation, the Department of Energy and the Department of Veterans Affairs. A steady growth in federal research revenue has occurred over the past several years. The outcome of the federal budget process has important ramifications for the campus' research budget.

The medical centers face financial challenges in a price-sensitive managed-care environment. The demand for health care services and the cost of providing them are increasing significantly, while revenues to support these services are diminishing. In addition to cost increases faced by hospitals across the state, such as rising salary and benefit costs, UCLA's medical centers also face additional costs associated with new technologies, biomedical research, the education and training of health care professionals, and the care for a disproportionate share of the medically underserved in California. In recent years, federal legislation has been enacted to slow future rate increases in Medicare and Medicaid and reduce medical education and disproportionate-share funding. UCLA will continue expenditure of its

more than $670 million approved budget for construction of the new Westwood hospital to replace its existing medical center and combine the operations of the UCLA Neuropsychiatric Hospital and Mattel Children's Hospital. The new facility is slated to open in 2005.

The continuing financial success of the medical centers is dependent on dedicated and sustained financial support for medical education and care for the poor. Payment strategies must recognize the need to maintain an operating margin sufficient to cover debt, provide working capital, purchase state-of-the-art equipment and invest in infrastructure and program expansion.

The UCLA hospital system continues to pursue short- and long-term solutions to address financial challenges at both the state and federal level in order to remain competitive in its market.

UCLA's remarkable achievement in recent years in obtaining private support and in finalizing its significant fundraising campaign is a testament to its distinction as a leader in philanthropy among the nation's colleges and universities and the high regard in which the campus and the University are held. The level of private support underscores the continued confidence among donors in the quality of UCLA's programs and the importance of its mission. At the same time, private support is beginning to reflect the changes in the economy and financial markets, the effect of which is likely to be more pronounced in the coming years.

Affordable, accessible student housing will be required in order to satisfy the demand associated with anticipated enrollment growth as stated in the compact agreement with the state. Current housing projects have projected an additional 4,000 bed spaces by 2008. Phase I will open for fall 2004 with 2,152 bed spaces, with an additional 1,222 bed spaces to be available in 2005. Phase II will add 618 more bed spaces, to be available in 2008.

Since a balanced array of many categories of facilities is needed to meet its education, research and public service goals, UCLA continues to assess its long-term capital requirements. Support for the campus' capital program will continue to be provided from a combination of sources, including the State of California, external financing, gifts and other sources.

There also are plans for additional capital projects that are not considered to be state supportable. This is a continuing process that is amended as required to include projects when gifts or other supplemental resources are obtained or financing plans are developed.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information provided by UCLA, including written statements (as outlined above) or oral statements made by its representatives, may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, which address activities, events or developments that UCLA expects or anticipates will or may occur in the future, contain forward-looking information.

In reviewing such information, it should be kept in mind that actual results may differ materially from those projected or suggested in such forward-looking information. This forward-looking information is based upon various factors and was derived using various assumptions. UCLA does not undertake to update forward-looking information contained in this report or elsewhere to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking information.

ucla collects

The richness of UCLA's collections is beyond measure. Whether masks, sculpture and ritual objects from Africa, Asia and the Pacific; rock art from the Western United States; anatomical drawings and medical treatises; rare books and manuscripts, or Renaissance prints and contemporary photography, the diversity of the university's holdings opens a window onto the breadth of human knowledge and creativity.

THE SPECIAL COLLECTIONS DIVISION OF THE LOUISE M. DARLING BIOMEDICAL LIBRARY

Established in 1964, the division's collection now comprises nearly 28,000 rare books. A 23,000-volume secondary support collection and an extensive body of materials on the history of science and medicine provide in-depth interpretation of the primary materials. In addition to rare books, the division collects and curates manuscripts, prints, portraits and museum objects.

THE UCLA FOWLER MUSEUM OF CULTURAL HISTORY

The museum explores global arts and material culture, with an emphasis on past and present works from Africa, Asia, the Pacific and the Americas. The Fowler seeks to foster a deep appreciation for and understanding of the diverse peoples, cultures and religions of the world through highly contextualized interpretive exhibitions, publications and public programming informed by interdisciplinary approaches and the perspectives of the cultures represented. The museum provides exciting, informative exhibitions and events for the UCLA community and the people of greater Los Angeles, and beyond.

THE GRUNWALD CENTER FOR THE GRAPHIC ARTS AT THE UCLA HAMMER MUSEUM

The Grunwald Center's collection includes more than 45,000 prints, drawings, photographs and artists' books dating from the Renaissance to the present. Established in 1956 with a substantial gift of prints and drawings from Fred Grunwald, the collection has been steadily enriched through significant acquisitions and donations. The Hammer Museum also houses the Armand Hammer Collection, which is focused on masters of 19th-century France, and the Armand Hammer Daumier and Contemporaries Collection, comprising

Photo by ROBERT WEDEMEYER

Abraham Sutzkever. *Beneath the Trees: Poems*. Millwood, NY: Haybarn Press, 2003. The Department of Special Collections of the Charles E. Young Research Library.

Photo by ROBERT WEDEMEYER

Tsukioka Yoshitoshi (Japanese, 1839-1892). *Ushiwaka and Benkei Dueling on Gojo Bridge*, 1881. Color woodcut. The Eugene L. and Davida R. Trope Collection. The Grunwald Center for the Graphic Arts at the UCLA Hammer Museum.

Photo by DON COLE

Figure representing Balaram, brother of Jagannath. Puri people, Orissa, India, c. 1960. Wood and colored paper. The UCLA Fowler Museum of Cultural History.

more than 7,500 works by Honoré Daumier and his fellow 19th-century French caricaturists.

THE UCLA ROCK ART ARCHIVE

The UCLA Rock Art Archive seeks to assemble full and complete records of rock art sites and to organize, store, conserve and make available those records. The archive's collections are wide-ranging, with the largest and most comprehensive collections focusing primarily on California, the Far West, Baja California and the Pacific Islands. Other areas represented include the American Southwest, a number of Eastern and Midwestern states, and several European sites. The archive also serves as a repository for site reports, site records and research reports, and since 1997 has operated an active, all-volunteer field research and publications program. In 2001, the archive received the California Governor's Award for Historic Preservation.

THE DEPARTMENT OF SPECIAL COLLECTIONS OF THE CHARLES E. YOUNG RESEARCH LIBRARY

The Department of Special Collections is one of the country's foremost — and most heavily used — collections of rare books, manuscripts and other special materials. It houses and provides access to the UCLA Library's central collection of rare books and manuscripts in the humanities and social sciences. The department's rare book holdings consist of some 333,000 volumes, while its non-book holdings comprise more than 30 million manuscripts, 5 million photographs and negatives, ephemera, maps, works of art, architectural drawings and models, and other graphic arts material.

X-ray. From *Eine Neue Art von Strahlen* [*On a New Kind of Rays*], by Wilhelm Conrad Roentgen (1845-1923); 1896. The Louise M. Darling Biomedical Library.

campaign ucla

During the 2003-2004 fiscal year, Campaign UCLA received more than $268 million in private gifts and grants, marking the sixth consecutive year in which UCLA's gift total has surpassed $250 million.

This figure, which reflects gifts and pledges received between July 1, 2003, and June 30, 2004, propelled the total for the Campaign to more than $2.56 billion, exceeding the $2.4 billion goal by nearly 7 percent in advance of the Campaign's 2005 conclusion.

While this represents a historic achievement in university fund-raising, increasing financial support for students and faculty remains a campuswide priority. To address this area of need, UCLA launched the Ensuring Academic Excellence initiative in June 2004. This fund-raising effort is designed to generate $250 million in private commitments through 2009 to help attract and retain top students and faculty. Among the initiative's financial goals are to raise $100 million to fund 100 new endowed chairs, $100 million to fund fellowships and scholarships in the UCLA College, and $50 million for fellowships and scholarships in UCLA's professional schools.

Advancing the aims of the initiative, six new chairs were endowed in the UCLA College during the past year through gifts totaling more than $7.8 million, benefiting areas from psychology and biology to molecular genetics. In addition, 27 fellowships were funded through nearly $3.4 million in gifts.

Other highlights included a $25 million gift from Jane and Terry Semel to UCLA's Neuropsychiatric Institute (NPI) to advance interdisciplinary research and teaching in the neurosciences. The gift is the largest ever made to the NPI, which will be renamed the Jane and Terry Semel Institute of Neuroscience and Human Behavior at UCLA.

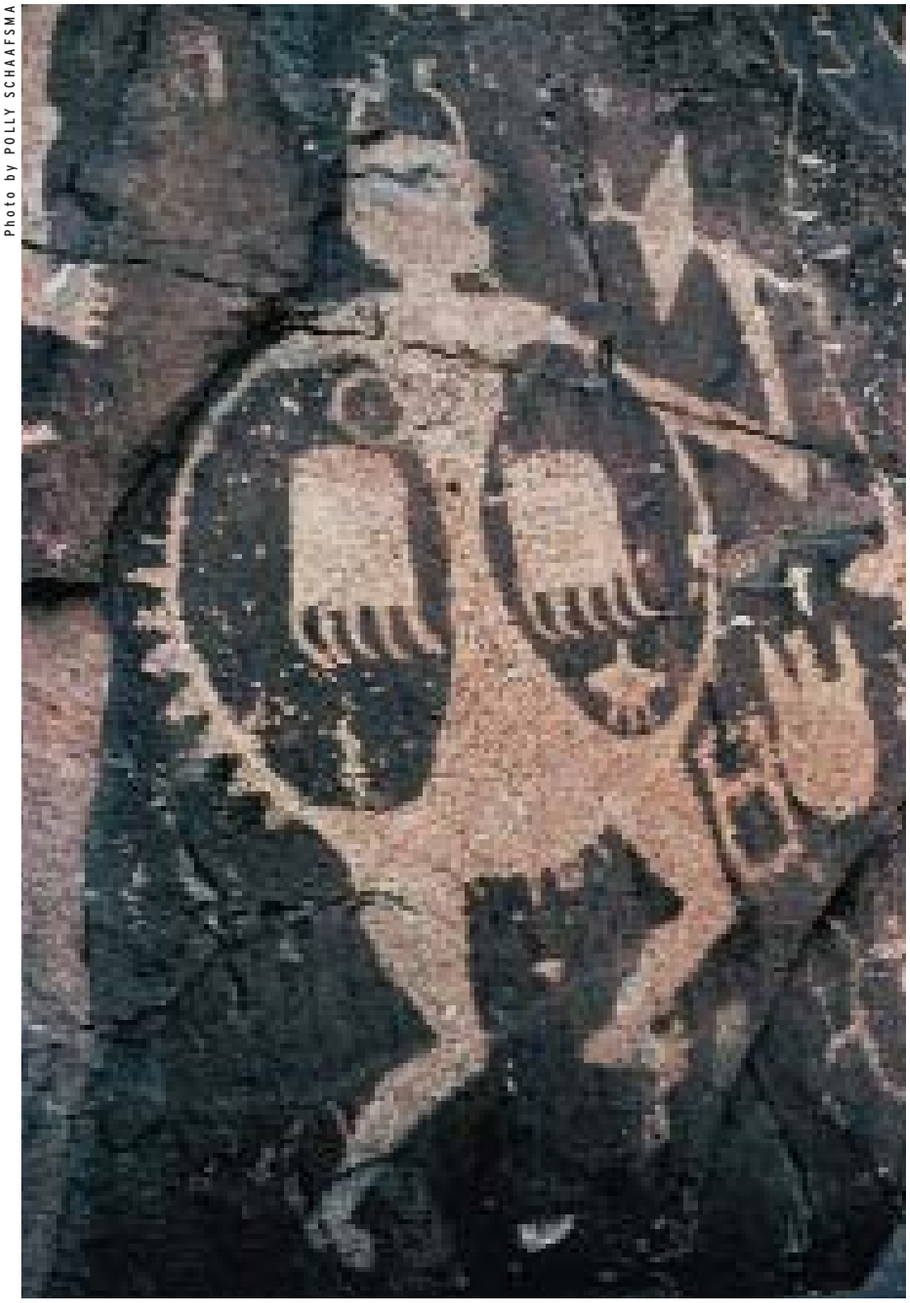
UCLArts received $520,000 from Mr. and Mrs. Jerry S. Moss to support international undergraduate and graduate scholars and artists; the UCLA School of Public Affairs received $500,000 from the estate of Edward E. Hildebrand to support graduate students pursuing research in Canadian studies; and the Department of English received $883,000 from UCLA Professor Emeritus Florence H. Ridley to create the Lily Bess Campbell, Ada Nisbet and Florence H. Ridley Graduate Fellowship in English.

Campaign resources continue to secure UCLA's position as a leader in American higher education by supporting pioneering research, providing student and faculty support, enhancing interdisciplinary programs, and enabling capital improvements.

©2004 ESTATE OF PABLO PICASSO/ARTISTS RIGHTS SOCIETY (ARS), NEW YORK. Photo by ROBERT WEDEMEYER

Pablo Picasso (Spanish, 1881-1973). *Tête de Femme* [*Woman's Head*], 1962.
Color linocut. The Grunwald Center for the Graphic Arts at the UCLA Hammer Museum. Gift of Norman Granz.

Photo by POLLY SCHAAFSMA



Anthropomorphic "shield bearer," or supernatural figure, with decorated torso, carrying a weapon or wand. Comanche Gap, Galisteo Basin, New Mexico. The UCLA Rock Art Archive.

TRANSMITTAL LETTER

The accompanying Financial Statements reflect the financial position and the results of operations of the University of California, Los Angeles (UCLA), for the fiscal year ended June 30, 2004.

The UCLA Financial Statements are not individually audited, but rather are audited as part of the Consolidated Annual Financial Report of the University of California by the firm of PricewaterhouseCoopers, whose report is transmitted to The Regents.

The accompanying Financial Statements and Management's Discussion and Analysis detail only local campus activity. This separate UCLA Annual Financial Report, while not separately audited, is also prepared from the official University of California records and accounts, which are maintained in accordance with the standards prescribed by the Governmental Accounting Standards Board (GASB).

As discussed in the summary of significant accounting policies, GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units,* became effective July 1, 2003. In compliance with Statement No. 39, the financial activity of the legally separate, tax-exempt UCLA Foundation can be found discretely recorded on the campus' financial statements under a separate column titled "Foundation."

Respectfully submitted,

Susan K. Abeles
Assistant Vice Chancellor/Controller
Corporate Financial Services

STATEMENT OF NET ASSETS

(dollars in thousands) For Fiscal Year Ended June 30, 2004, with comparative totals for 2003

	CAMPUS*		FOUNDATION	
	2004	2003	2004	2003
ASSETS				
Cash	$ 20,669	$ 16,701	$ 3,932	$ 771
Short-term investments	945,807	782,470	121,272	123,564
Investment of cash collateral	-	-	40,260	61,760
Investments held by trustees	115	30	-	-
Accounts receivable, net	437,648	453,659	4,090	4,943
Pledges receivable, net	1,276	1,462	49,878	35,145
Current portion of notes and mortgages receivable, net	8,159	10,330	56	297
Inventories	28,614	26,556	-	-
Other current assets	26,686	28,208	2,516	2,516
Current assets	1,468,974	1,319,416	222,004	228,996
Investments	-	-	651,922	551,892
Investments held by trustees	104,036	189,239	-	-
Pledges receivable	14,248	14,978	174,439	190,478
Notes and mortgages receivable, net	68,748	67,517	451	41
Land, buildings, equipment, libraries and collections, net	3,265,838	2,864,869	27,585	26,750
Other noncurrent assets	14,655	11,397	10,301	11,635
Noncurrent assets	3,467,525	3,148,000	864,698	780,796
TOTAL ASSETS	$ 4,936,499	$ 4,467,416	$ 1,086,702	$ 1,009,792
LIABILITIES				
Accounts payable	$ 276,372	$ 272,590	$ 9,321	$ 14,403
Accrued salaries and benefits	144,947	154,571	-	-
Deferred revenue	154,193	143,634	1,456	1,266
Current portion of long-term debt	20,580	24,117	40,260	61,760
Funds held for others	-	-	53,613	45,937
Other current liabilities	67,316	68,706	5,991	5,693
Current liabilities	663,408	663,618	110,641	129,059
Federal refundable loans	44,125	44,011	-	-
Obligations under life income agreements	-	-	45,407	39,156
Long-term debt	514,707	494,929	-	-
Other noncurrent liabilities	78,781	78,482	-	-
Noncurrent liabilities	637,613	617,422	45,407	39,156
TOTAL LIABILITIES	$ 1,301,021	$ 1,281,040	$ 156,048	$ 168,215
NET ASSETS				
Invested in capital assets, net of related debt	$ 2,824,567	$ 2,478,045	$ -	$ -
Restricted:				
Nonexpendable:				
Endowments	-	-	314,203	273,827
Annuity and life income funds	-	-	15,599	14,291
Expendable:				
Endowment	-	-	107,173	68,567
Annuity and life income funds	-	-	19,375	21,211
Funds functioning as endowments	-	-	308,536	291,383
Grants and contracts	-	-	-	-
Gifts	121,520	123,927	165,213	171,776
Loans	47,775	47,190	-	-
Capital projects	37,122	42,648	-	-
Debt service	13,126	32,374	-	-
Appropriations	6,054	6,325	-	-
Other	46,330	43,540	-	-
Unrestricted	538,984	412,327	555	522
TOTAL NET ASSETS	$ 3,635,478	$ 3,186,376	$ 930,654	$ 841,577

**See accompanying Notes to Financial Statements.*

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

(dollars in thousands) For Fiscal Year Ended June 30, 2004, with comparative totals for 2003

	CAMPUS*		FOUNDATION	
	2004	2003	2004	2003
OPERATING REVENUES				
Student tuition and fees, net	$ 264,126	$ 209,404	$ -	$ -
Grants and contracts:				
Federal	574,534	521,985	-	-
State	52,262	54,804	-	-
Private	138,069	131,532	-	-
Local	30,377	29,049	-	-
Sales and services:				
Medical centers	898,510	839,530	-	-
Educational activities	386,861	351,672	-	-
Auxiliary enterprises, net	228,561	226,363	-	-
Private gifts	-	-	97,947	87,463
Other operating revenues, net	43,361	40,908	-	-
Total operating revenues	2,616,661	2,405,247	97,947	87,463
OPERATING EXPENSES				
Salaries and wages	1,699,126	1,650,567	-	-
Benefits	312,635	287,385	-	-
Scholarships and fellowships	67,630	73,827	-	-
Utilities	71,659	68,374	-	-
Supplies and materials	346,675	349,347	-	-
Depreciation	170,344	163,949	-	-
Campus foundation grants	-	-	120,318	96,545
Other operating expenses	518,121	488,180	1,640	1,410
Total operating expenses	3,186,190	3,081,629	121,958	97,955
Operating loss	(569,529)	(676,382)	(24,011)	(10,492)
NONOPERATING REVENUES (EXPENSES)				
State educational appropriations	572,613	630,271	-	-
State financing appropriations	25,840	14,289	-	-
Private gifts	133,793	119,674	-	-
Investment income	-	-	56,690	(15,409)
Other	137	295	-	-
Net depreciation in fair value of investments	(10)	(92)	25,194	39,790
Interest expense	(19,090)	(22,790)	-	-
Loss on disposal of capital assets, net	(14,845)	(9,440)	-	-
Other nonoperating revenues (expenses)	(605)	(4,158)	(6,562)	(2,191)
Net nonoperating revenues (expenses)	697,833	728,049	75,322	22,190
Income (loss) before other change net assets	128,304	51,667	51,311	11,698
OTHER CHANGES IN NET ASSETS				
State capital appropriations	36,189	9,382	-	-
Capital gifts and grants	142,047	221,396	-	-
Permanent endowments	-	-	37,766	20,201
Transfers	142,562	20,880	-	-
Increase in net assets	449,102	303,325	89,077	31,899
NET ASSETS				
Net assets, beginning of year	3,186,376	2,883,051	841,577	809,678
Net assets, end of year	$ 3,635,478	$ 3,186,376	$ 930,654	$ 841,577

**See accompanying Notes to Financial Statements.*

TRANSFERS

(dollars in thousands)	For Fiscal Year Ended June 30, 2004, with comparative totals for 2003	
	CAMPUS*	
	2004	2003
Current (to)/from retirement of indebtedness	$ -	$ (1)
Current:		
Intrafund	-	-
Intercampus	228,152	174,490
Interfund	(78,465)	(46,273)
Net revenue of bonds and other indebtedness programs	(34,923)	(27,843)
Indirect cost recovery	280	(447)
Net adjustments	-	-
Unexpended plant	54,513	94,697
Retirement of indebtedness	117,063	(41,176)
Investment in plant:		
Intrafund transfer assets	(516)	(420)
Intrafund transfer depreciation	27	662
Renewals and replacements	-	-
Loan	618	761
Indirect cost recovery	(144,187)	(133,570)
Total transfers	$ 142,562	$ 20,880

**See accompanying Notes to Financial Statements.*

STATEMENT OF CASH FLOWS

(dollars in thousands) For Fiscal Year Ended June 30, 2004, with comparative totals for 2003

	CAMPUS*		FOUNDATION	
	2004	2003	2004	2003
CASH FLOWS FOR OPERATING ACTIVITIES				
Student tuition and fees, net	$ 257,846	$ 208,623	$ -	$ -
Grants and contracts	804,994	732,277	-	-
Receipts from sales and services of:				
Medical centers	885,539	842,595	-	-
Educational activities	381,933	354,641	-	-
Auxiliary enterprises, net	229,470	228,054	-	-
Collection of loans from students and employees	21,841	1,419	-	-
Private gifts	-	-	100,723	103,560
Payments to employees	(1,729,841)	(1,639,439)	-	-
Payments to suppliers and utilities	(875,518)	(862,791)	-	-
Payments for benefits	(291,434)	(288,467)	-	-
Payments for scholarships and fellowships	(67,630)	(73,827)	-	-
Loans issued to students and employees	(19,986)	3,418	-	-
Payments to campus and beneficiaries	-	-	(126,493)	(83,289)
Other receipts (payments)	(15,130)	(18,750)	4,066	3,062
Net cash used by operating activities	(417,916)	(512,247)	(21,704)	23,333
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State educational appropriations	572,613	630,271	-	-
Gifts received for other than capital purposes:				
Private gifts for endowment purposes	-	-	37,766	20,201
Other private gifts	132,713	118,251	-	-
Other receipts (payments)	(605)	(5,666)	-	-
Net cash provided by noncapital financing activities	704,721	742,856	37,766	20,201
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Commercial paper financing:				
Proceeds from issuance	-	-	-	-
Payments of principal	-	-	-	-
Interest paid	-	-	-	-
State capital appropriations	33,559	21,002	-	-
State financing appropriations	11,988	10,836	-	-
Capital gifts and grants	117,490	175,286	-	-
Proceeds from debt issuance	300,655	8,306	-	-
Proceeds from the sale of capital assets	-	5,382	-	-
Purchases of capital assets	(414,640)	(455,326)	-	-
Principal paid on debt and capital leases	(309,042)	(19,001)	-	-
Interest paid on debt and capital leases	(2,072)	(18,042)	-	-
Net cash used by capital and related financing activities	(262,062)	(271,557)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments:				
Short-term investment pool	-	-	-	-
Other investments	-	-	104,705	61,033
Purchase of investments:				
Short-term investment pool	-	-	-	-
Other investments	-	-	(134,558)	(122,931)
Investment income, net of investment expenses	-	45	16,952	14,385
Net cash provided by investing activities	-	45	(12,901)	(47,513)
Transfers	142,562	20,880	-	-
Net (decrease) increase in cash	167,305	(20,023)	3,161	(3,979)
Cash, beginning of year	799,171	819,194	771	4,750
Cash, end of year	$ 966,476	$ 799,171	$ 3,932	$ 771

**See accompanying Notes to Financial Statements.*

UNIVERSITY OF CALIFORNIA, LOS ANGELES

Years ended June 30, 2004 and 2003

ORGANIZATION/FINANCIAL REPORTING ENTITY

The University of California (the University) was founded in 1868 as a public, state-supported institution. The California State Constitution provides that the University shall be a public trust administered by the corporation "The Regents of the University of California," which is vested with full powers of organization and government, subject only to such legislative control necessary to ensure the security of its funds and compliance with certain statutory and administrative requirements. The majority of the 26-member independent governing board (The Regents) are appointed by the governor and approved by the state Senate. Various University programs and capital outlay projects are funded through appropriations from the state's annual Budget Act. The University's financial statements are discretely presented in the state's general-purpose financial statements as a component unit. Additionally, the University's consolidated financial statements, including 10 campuses, five medical centers, a statewide agricultural extension program, the University of California Retirement System and certain operational results of three major Department of Energy laboratories, are subjected to an independent annual audit.

The Los Angeles campus of the University of California was founded in 1919 and is financially the largest campus in the 10-campus University of California system. The financial statements included in this annual report present the combined activities of the Los Angeles campus, including the UCLA Medical Center. The accounts of the Los Angeles campus are subject to limited-scope procedures as a part of the annual audit of the financial statements of the entire University of California. The financial statements for the Los Angeles campus have not been individually audited.

ASUCLA's financial data for the fiscal year ended June 30, 2004, have been included in the financial statements in order to reflect total financial activity of the UCLA campus. ASUCLA conducts activities on the UCLA campus pursuant to the Statement of Understanding of ASUCLA's Relationships with the University, dated June 28, 1974.

The UCLA Foundation is a nonprofit, public-benefit corporation organized for the purpose of accepting and administering the full range of private contributions for the campus. The financial activities of the separately incorporated foundation are not reflected within the campus' records until such time as gifts are transferred from the foundation to the campus. However, in accordance with the statements of the Governmental Accounting Standards Board (GASB) detailed below, foundation activity is noted on the campus' financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the UCLA campus have been prepared in accordance with generally accepted accounting principles, including all applicable effective statements of the Governmental Accounting Standards Board (GASB) and all statements of the Financial Accounting Standards Board through November 30, 1989, using the economic resources measurement focus and the accrual basis of accounting.

As of July 1, 2001, GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, an amendment of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, was adopted by the University, along with GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and Statement No. 38, *Certain Financial Statement Note Disclosures*.

Photo by ROBERT WEDEMEYER

Cyril Power (English, 1874-1951). *The Tube Staircase* (*Hampstead Underground*), c. 1930.
Color woodcut. The Grunwald Center for the Graphic Arts at the UCLA Hammer Museum.

On July 1, 2003, GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units,* became effective. In compliance with Statement No. 39, the financial activity of the legally separate, tax-exempt UCLA Foundation can be found discretely recorded on the campus' financial statements under a separate column titled "Foundation."

The significant accounting policies followed by UCLA are summarized as follows.

OTHER ACCOUNTING POLICIES

Cash. The University considers all balances in demand deposit accounts to be cash. All other highly liquid cash equivalents are considered to be short-term investments.

Short-term investments. UCLA participates in a temporary investment pool that is administered by the Office of the President. Income earned on investments is distributed based on average investments in the pool. This pool invests primarily in U.S. Treasury securities, commercial paper and short-term corporate notes with cost approximating market value. These temporary investments are considered cash equivalents for the purposes of the statement of cash flows.

Investments. Investments for endowment monies and other similar funds are primarily administered centrally by the Office of the President and are not reflected on the UCLA local financial statements. These funds consist of endowments, funds functioning as endowment, and annuity and life income funds. Endowments require that the principal be invested in perpetuity, with the income used in accordance with the terms specified by the donor. Funds functioning as endowment are primarily gifts and related gains that the University treats as endowments, with the exception that any portion of these funds may be expended at the University's discretion. Annuity and life income funds are held in trust by the University with the annuity or income paid periodically to designated beneficiaries; principal of these funds vests with the University and payments cease upon the death of the beneficiaries.

Monies are invested by the Treasurer of The Regents and the income transferred to individual campuses annually. A substantial portion of the net assets of the endowment and similar funds participates in a general endowment pool. Each individual fund subscribes to or disposes of units on the basis of the market value per unit at the end of the calendar month within which the transaction takes place. Investments include equities, high-yield equities, bonds and real estate.

Accounts receivable. Accounts receivable include reimbursements due from state and federal sponsors of externally funded research, patient billings, accrued income on investments and other receivables. Other receivables include local government and private grants and contracts, pledges, educational activities, and amounts due from students, employees and faculty for services.

Pledges. Unconditional pledges of private gifts to the campus in the future are recorded as pledges receivable and revenue in the year promised at the present value of expected cash flows. Conditional pledges, including pledges of endowments to be received in future periods, and intentions to pledge are recognized as receivables and revenues when the specified conditions are met.

Notes and mortgages receivable. Loans to students are provided by federal student loan programs and other University sources. Home mortgage loans, primarily to faculty, are provided by the University's Short-Term Investment Pool and other University sources. Mortgage loans provided by the Short-Term Investment Pool are classified as investments, and loans provided by other sources are classified as mortgages receivable in the statement of net assets.

Inventories. Inventories are valued at cost, typically determined using the weighted average method, which is not in excess of net realizable value.

Land, infrastructure, buildings, equipment, libraries and collections. Land, infrastructure, buildings and improvements, equipment, libraries and collections, and special collections are recorded at cost at the date of acquisition, or fair value at the date of donation in the case of gifts. Capital leases are recorded at the present value of future minimal lease payments. Significant additions, replacements, major repairs and renovations are generally capitalized if the cost exceeds $35,000 and if they have a useful life of more than one year. Minor renovations are charged to operations.

Depreciation is calculated using the straight-line method over the estimated economic life of the asset. Leasehold improvements are amortized using the straight-line method over the life of the applicable lease or the economic life of the asset, whichever is shorter.

Estimated economic lives are generally as follows:

Infrastructure	25 years
Buildings and improvements	15–33 years
Equipment	2–20 years
Computer software	3–7 years
Library books and materials	15 years

Capital assets acquired through federal grants and contracts where the federal government retains a reversionary interest are capitalized and depreciated.

Inexhaustible capital assets — such as land or special collections that are protected, preserved and held for public exhibition, education or research, including art, museum, scientific and rare book collections — are not depreciated.

Interest on borrowings to finance facilities is capitalized during construction, net of any investment income earned during the temporary investment of project-related borrowings.

Deferred revenue. Deferred revenue primarily includes amounts received from grant and contract sponsors that have not been earned under the terms of the agreement and other revenue billed in advance of the event, such as student tuition and fees and fees for housing and dining services.

Federal refundable loans. Certain loans to students are administered by the campus with funding primarily supported by the federal government. The University's statement of net assets includes both the notes receivable and the related federal refundable loan liability representing federal capital contributions owed upon termination of the program.

Net assets. Net assets are classified for accounting and reporting purposes into the following categories:

> ***Invested in capital assets, net of related debt.*** This category includes all of the campus' capital assets, net of accumulated depreciation, reduced by outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
>
> ***Restricted.*** The campus classifies net assets resulting from transactions with purpose restrictions as restricted net assets until the specific resources are used for the required purpose or for as long as the provider requires the resources to remain intact.
>
> > ***Nonexpendable.*** Net assets subject to externally imposed restrictions that must be retained in perpetuity by the University are classified as nonexpendable net assets. Such assets include

the University's permanent endowment funds. Because the Office of the President administers these funds, UCLA's local financial statements do not reflect balances for nonexpendable assets.

Expendable. Net assets whose use by the campus is subject to externally imposed restrictions that can be fulfilled by actions of the University pursuant to those restrictions or that expire by the passage of time are classified as expendable net assets.

Unrestricted. Net assets that are neither restricted nor invested in capital assets, net of related debt, are classified as unrestricted net assets. Unrestricted net assets may be designated for specific purposes by management or The Regents. Substantially all unrestricted net assets are allocated for academic and research initiatives or programs, or for capital programs.

Revenues and expenses. Operating revenues include receipts from student tuition and fees, grants and contracts for specific operating activities, and sales and services from medical centers, educational activities and auxiliary enterprises. Operating expenses incurred in conducting the programs and services of the UCLA campus and medical centers are presented in the statement of revenues, expenses and changes in net assets as operating activities.

In accordance with GASB Statement No. 35, certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the campus are mandated to be recorded as nonoperating revenues, including state educational appropriations, private gifts and investment income.

Nonoperating revenues and expenses include state educational appropriations (for the support of UCLA operating expenses), state financing appropriations, private gifts for other than capital purposes, investment income, net unrealized appreciation or depreciation in the fair value of investments, interest expense and gain or loss on the disposal of capital assets.

State capital appropriations, and capital gifts and grants are classified as other changes in net assets.

Student tuition and fees. Substantially all of the student tuition and fees provide for current operations of the campus. A small portion of the student fees, reported as capital gifts and grants, is required for debt service associated with student union and recreational centers. Certain waivers of student tuition and fees considered to be scholarship allowances are recorded as an offset to revenue.

State appropriations. The State of California provides appropriations to the University, which are allocated to the campuses on an annual basis. State educational appropriations are recognized as nonoperating revenue; however, the related expenses are incurred to support either educational operations or other specific operating purposes. State appropriations for capital projects are recorded as revenue under other changes in net assets when the related expenditures are incurred.

Grant and contract revenue. UCLA receives grant and contract revenue from governmental and private sources. The campus recognizes revenue associated with the direct costs of sponsored programs as the related expenditures are incurred. Recovery of facilities and administrative costs of federally sponsored programs is at cost reimbursement rates negotiated with the University's federal cognizant agency, the Department of Health and Human Services. For the fiscal year ended June 30, 2004, the facilities and administrative cost recovery totaled $147 million, $124.5 million from federally sponsored programs and $22.6 million from other sponsors. For the year ended June 30, 2003, the facilities and administrative cost recovery totaled $136.4 million, $114.4 million from federally sponsored programs and $22 million from other sponsors.

The majority of the recovery of facilities and administrative costs from contract and grant activity are transferred to the Office of the President as part of the closing process and then reallocated at a designated rate to the campus in the next fiscal year. The amount transferred for 2004 was $144.2 million, and $133.6 million for 2003.

Medical center revenue. Medical center revenue is reported at the estimated net realizable amounts from patients and third-party payers, including Medicare, Medi-Cal and others, for services rendered, as well as estimated retroactive adjustments under reimbursement agreements with third-party payers. Laws and regulations governing Medicare and Medi-Cal are complex and subject to interpretation. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. It is reasonably possible that estimated amounts accrued could change significantly based upon settlement or as additional information becomes available.

Scholarship allowances. The campus recognizes certain scholarship allowances, which include both financial aid and fee waivers, as the difference between the stated charge for tuition and fees, housing and dining charges, recreational center fees, etc., and the amount that is paid by the student or by third parties on behalf of the student.

Payments of financial aid made directly to students are classified as scholarship and fellowship expenses.

Scholarship allowances in the following amounts are recorded as an offset to revenues for the years ended June 30, 2004 and 2003 (*dollars in thousands*):

	2004	2003
Student tuition and fees	$ 77,747	$ 59,488
Sales and services of auxiliary enterprises	18,455	10,843
Scholarship allowances	$ 96,202	$ 70,331

Compensated absences. UCLA accrues annual leave for employees at rates based upon length of service and job classification, and compensatory time based upon job classification and hours worked.

Endowment spending. Under provisions of California law, the Uniform Management of Institutional Funds Act allows for investment income, as well as a portion of realized and unrealized gains, to be expended for the operational requirements of University programs.

Tax exemption. UCLA is qualified as a tax-exempt organization under the provisions of Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related income.

Use of estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenditures during the reporting period. Actual amounts could differ from those estimates.

Comparative information. 2003 financial information is included as comparative values to the 2004 presentation.

1. CASH

The University maintains centralized management for substantially all of its cash. Cash in demand deposit accounts is minimized by sweeping available cash balances into investment accounts on a daily basis. At June 30, 2004 and 2003, the carrying amount of UCLA's equity in the Treasurer's investment, transferred to the Treasurer's Office as part of the University's investment, was $945.8 million and $782.5 million, respectively, compared with bank balances of $20.7 million and $16.7 million, respectively. The timing of deposits in transit, varying from year to year, is the primary difference.

2. INVESTMENTS HELD BY TRUSTEES

UCLA has entered into agreements with trustees to maintain trusts for long-term debt requirements. All investments held by trustees are insured, registered or held by the campus' trustee or custodial bank, as fiduciary for the bondholder or as agent for the University.

The trust agreements for long-term debt permit trustees to invest in U.S. and state government or agency obligations, commercial paper or other corporate obligations meeting certain credit rating requirements.

Noncurrent investments held by trustees are for future payment of principal and interest in accordance with various indenture and other long-term debt requirements. The fair value of these investments was $104 million and $189.2 million at June 30, 2004 and 2003, respectively. The decrease is attributed to the prior year's noncurrent investments of $85 million, which were reclassified as current investments for 2004 to cover anticipated plant expenditures.

UCLA's deposits into the trusts, or receipts from the trust, are classified as a capital and related financing activity in the statement of cash flows as it is related to long-term debt requirements. Investment transactions initiated by trustees in conjunction with the management of the trust assets and payments from the trust to third parties are not included in the campus' statement of cash flows.

3. ACCOUNTS RECEIVABLE

Accounts receivable and the allowances for uncollectible amounts at June 30, 2004 and 2003 are as follows (*dollars in thousands*):

	STATE & FEDERAL GOVERNMENT	MEDICAL CENTERS	OTHER	TOTAL
At June 30, 2004				
Accounts receivable	$ 97,015	$ 246,301	$ 144,150	$ 487,466
Allowance for uncollectible amounts	(115)	(41,014)	(7,413)	(48,542)
Accounts receivable, net	$ 96,900	$ 205,287	$ 136,737	$ 438,924
At June 30, 2003				
Accounts receivable	$ 145,172	$ 233,331	$ 133,225	$ 511,728
Allowance for uncollectible amounts	(261)	(49,128)	(7,218)	(56,607)
Accounts receivable, net	$ 144,911	$ 184,203	$ 126,007	$ 455,121

(Other accounts receivable are primarily related to private grants and contracts, physicians' professional fees, pledges, investment sales, tuition and fees, and auxiliary enterprises.)

4. NOTES AND MORTGAGES RECEIVABLE

Notes and mortgages receivable at June 30, 2004 and 2003, along with allowances for uncollectible amounts, are as follows (*dollars in thousands*):

	CURRENT	NONCURRENT NOTES	NONCURRENT MORTGAGES	TOTAL
At June 30, 2004				
Notes and mortgages receivable	$ 8,701	$ 57,798	$ 12,366	$ 78,865
Allowance for uncollectible amounts	(542)	(1,184)	(232)	(1,958)
Notes and mortgages receivable, net	$ 8,159	$ 56,614	$ 12,134	$ 76,907
At June 30, 2003				
Notes and mortgages receivable	$ 10,908	$ 55,569	$ 13,442	$ 79,920
Allowance for uncollectible amounts	(578)	(1,243)	(251)	(2,072)
Notes and mortgages receivable, net	$ 10,330	$ 54,326	$ 13,191	$ 77,848

5. LAND, INFRASTRUCTURE, BUILDINGS, EQUIPMENT, LIBRARIES AND COLLECTIONS

The campus' capital asset activity for the years ended June 30, 2004 and 2003, is as follows (*dollars in thousands*):

	2002	ADDITIONS	DISPOSALS	2003	ADDITIONS	DISPOSALS	2004
ORIGINAL COST							
Land	$ 71,973	$ 5,850	$ (285)	$ 77,538	$ 2,669	$ -	$ 80,207
Infrastructure	7,019	735	-	7,754	-	-	7,754
Buildings and improvements	2,385,294	58,889	(2,868)	2,441,315	109,384	-	2,550,699
Equipment	787,033	83,033	(48,619)	821,447	121,705	(70,610)	872,542
Libraries and collections	424,316	13,009	-	437,325	16,325	-	453,650
Special collections	52,560	1,149	-	53,709	1,305	-	55,014
Construction in progress	551,046	339,261	-	890,307	334,743	-	1,225,050
Capital assets, at original cost	$ 4,279,241	$ 501,926	$ (51,772)	$ 4,729,395	$ 586,131	$ (70,610)	$ 5,244,916

	2002	DEPRECIATION & AMORTIZATION	DISPOSALS	2003	DEPRECIATION & AMORTIZATION	DISPOSALS	2004
ACCUMULATED DEPRECIATION AND AMORTIZATION							
Infrastructure	$ 5,044	$ 200	$ -	$ 5,244	$ 200	$ -	$ 5,444
Buildings and improvements	961,077	74,391	(1,097)	1,034,370	76,220	-	1,110,590
Equipment	469,892	74,410	(36,513)	507,789	79,743	(55,792)	531,740
Libraries and collections	302,176	14,947	-	317,123	14,181	-	331,304
Accumulated depreciation and amortization	$ 1,738,189	$ 163,948	$ (37,610)	$ 1,864,526	$ 170,344	$ (55,792)	$ 1,979,078
Capital assets, net	$ 2,541,052			$ 2,864,869			$ 3,265,838

6. DEBT

The University may finance the construction, renovation and acquisition of certain facilities and equipment through the issuance of debt obligations. Commercial paper provides for interim financing, which is accounted for on a systemwide basis. Long-term financing includes revenue bonds, certificates of participation, mortgages and other borrowings, and capital lease obligations.

UCLA's outstanding debt at June 30, 2004 and 2003, is as follows (*dollars in thousands*):

	INTEREST RATES	MATURITY YEARS	2004	2003
LONG-TERM FINANCING				
Hospital Revenue Bonds Series 2002 & 2004	2.0 – 5.5 %	2004 – 2039	$ 298,466	$ 135,670
Los Angeles Central Chiller/Cogeneration certificates of participation	4.6 – 10.0 %		-	169,220
Mortgages and other borrowings	2.23 – 7 %	2004 – 2008	15,119	11,422
Capital lease obligations	4.5 – 11 %	2004 – 2012	54,386	29,729
Capital lease obligations – state lease revenue bonds	2.4 – 5 %	2004 – 2022	167,316	173,005
Total long-term outstanding debt			$ 535,287	$ 519,046

Outstanding Debt Activity

Activity with respect to the campus' current and noncurrent debt for the years ended June 30, 2004 and 2003, is as follows (*dollars in thousands*):

	REVENUE BONDS	CERTIFICATES OF PARTICIPATION	MORTGAGES AND OTHER BORROWINGS	CAPITAL LEASE OBLIGATIONS	TOTAL
Year Ended June 30, 2004					
Current portion at June 30, 2003	$ 5,815	$ 5,300	$ 28	$ 12,974	$ 24,117
Reclassification from noncurrent	99,235	163,920	28,048	19,992	311,195
Principal payments	(104,150)	(169,220)	(28,046)	(13,316)	(314,732)
Current portion at June 30, 2004	900	0	30	19,650	20,580
Noncurrent portion at June 30, 2003	129,855	163,920	11,394	189,760	494,929
New obligations	266,946	-	31,743	32,284	330,973
Reclassification to current	(99,235)	(163,920)	(28,048)	(19,992)	(311,195)
Noncurrent portion at June 30, 2004	297,566	-	15,089	202,052	514,707
Total	$ 298,466	$ -	$ 15,119	$ 221,702	$ 535,287
Year Ended June 30, 2003					
Current portion at June 30, 2002	$ 5,480	$ 4,870	$ 119	$ 3,295	$ 13,764
Reclassification from noncurrent	5,815	5,300	4,711	13,528	29,354
Principal payments	(5,480)	(4,870)	(4,802)	(3,849)	(19,001)
Current portion at June 30, 2003	5,815	5,300	28	12,974	24,117
Noncurrent portion at June 30, 2002	135,670	169,220	7,799	6,570	319,259
New obligations	-	-	8,306	196,718	205,024
Reclassification to current	(5,815)	(5,300)	(4,711)	(13,528)	(29,354)
Noncurrent portion at June 30, 2003	129,855	163,920	11,394	189,760	494,929
Total	$ 135,670	$ 169,220	$ 11,422	$ 202,734	$ 519,046

Revenue Bonds

Revenue bonds have financed various auxiliary, administrative, academic and research facilities of the University. They have annual principal and semiannual interest payments, and serial and term maturities; they contain sinking fund requirements and may have optional redemption provisions.

Revenue bonds for medical centers and auxiliary enterprises are collateralized by a pledge of the net revenues generated by the enterprises. Revenue bonds for research facilities and certain revenue bonds for administrative and academic facilities are collateralized by a pledge of the University's share of facilities and administrative rate recoveries received on federal research grants and contracts performed by the University. Revenue bonds are not collateralized by any encumbrance, mortgage or other pledge of property, except pledged revenues, and do not constitute general obligations of The Regents.

The Multiple Purpose Projects Revenue Bond indentures require the University to achieve net revenues, after expenses and requirements for senior lien indentures, equal to 1.25 times debt service and to maintain certain other financial covenants. The Hospital Revenue Bonds require the University to achieve net revenues of 1.1 times to 1.2 times debt services (depending on the indenture); set limitations on encumbrances, indebtedness, disposition of assets and transfer services; and maintain certain other financial covenants. The Multiple Purpose Projects Revenue Bond and Hospital Revenue Bond indentures require the University to use the facilities in a way that will not cause the interest on the bonds to be included in the gross income of the holders of the bonds for federal tax purposes.

Certificates of Participation

Certificates of participation had been issued to the Los Angeles Central Chiller/Cogeneration facility. The certificates were collateralized by buildings and equipment. As of June 30, 2004, full redemption of the outstanding balance was made by general revenue bonds now held at the Office of the President.

Mortgages and Other Borrowings

Mortgages and other borrowings consist of contractual obligations resulting from the acquisition of land or buildings and the construction and renovation of certain facilities. The mortgages are collateralized by real property.

As part of the University, UCLA may use uncollateralized bank lines of credit with commercial banks to supplement commercial paper to provide interim financing for buildings and equipment. Line-of-credit commitments, with various expiration dates through 2008, totaled $147.4 million at June 30, 2004. Outstanding borrowing under these bank lines totaled $15 million and $11.3 million at June 30, 2004 and 2003, respectively, and is included in mortgages and other borrowings.

Capital Leases

Capital leases entered into with other lessors, primarily for the replacement hospitals and equipment, totaled $221.7 million in 2004, up from $202.7 million in 2003. The majority of that amount, $167.3 million, is attributable to State Lease Revenue Bonds issued to finance the UCLA replacement hospitals in Santa Monica and Westwood; the bonds mature in 2039.

Future Debt Service

Future debt service payments for each of the five fiscal years subsequent to June 30, 2004, and thereafter are as follows (*dollars in thousands*):.

Year Ending June 30	REVENUE BONDS	CERTIFICATES OF PARTICIPATION	MORTGAGES AND OTHER BORROWINGS	CAPITAL LEASES STATE	CAPITAL LEASES OTHER	TOTAL PAYMENTS	PRINCIPAL	INTEREST
2005	$ 14,862	$ -	$ 36	$ 13,817	$ 15,361	$ 44,076	$ 20,179	$ 23,897
2006	15,120	-	15,051	13,866	13,324	57,361	33,976	23,385
2007	19,497	-	37	13,794	12,265	45,593	22,788	22,805
2008	19,469	-	9	13,816	11,263	44,557	22,457	22,100
2009	21,744	-	-	13,778	5,831	41,353	19,955	21,398
2010–2014	127,832	-	-	68,700	78	196,610	106,174	90,436
2015–2019	98,652	-	-	68,309	41	167,002	99,911	67,091
2020–2024	71,755	-	-	54,422	-	126,177	87,600	38,577
2025–2029	53,828	-	-	-	-	53,828	28,350	25,478
2030–2034	53,829	-	-	-	-	53,829	36,505	17,324
2035–2039	53,829	-	-	-	-	53,829	46,610	7,219
Total future debt service	552,417	-	15,133	260,502	58,163	884,215	$ 524,505	$ 359,710
Less interest component of future payments	262,733	-	14	93,186	3,777	359,710		
Principal portion of future payments	287,684	-	15,119	167,316	54,386	524,505		
Deferred premium – Medical Center	10,782	-	-	-	-	-		
Total long-term outstanding debt	$ 298,466	$ -	$ 15,119	$ 167,316	$ 54,386	$ 535,287		

(Future payments not included above are the systemwide state capital leases, in which UCLA participates, that are held at the Office of the President. The principal portion totals $112.6 million, and interest $64.8 million, through 2024.)

7. SELF-INSURANCE AND OTHER LIABILITIES

UCLA's other liabilities, primarily employee leave and other compensated absences with similar characteristics and accrued interest, at June 30, 2004 and 2003, are as follows (*dollars in thousands*):

	2004 CURRENT	2004 NONCURRENT	2003 CURRENT	2003 NONCURRENT
Other liabilities:				
Compensated absences	$ 36,536	$ 78,781	$ 41,318	$ 78,482
Accrued interest	2,965	-	4,258	-
Other	27,815	-	23,130	-
Total	$ 67,316	$ 78,781	$ 68,706	$ 78,482

Self-Insurance Programs

The University is self-insured for medical malpractice, workers' compensation, employee health care and general liability claims. These risks are subject to various claim and aggregate limits, with excess liability coverage provided by an independent insurer. Liabilities are recorded on a systemwide basis when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Each campus funds the self-insurance liability through predetermined rates applied to payroll and other expenses. These amounts are reflected as operating expenses in UCLA's statement of revenues, expenses and changes in net assets. UCLA's financial statements do not reflect any liability amounts for self-insurance claims as these estimated liabilities are recorded on a systemwide basis.

Other Noncurrent Liabilities

Activity with respect to other noncurrent liabilities for the years ended June 30, 2004 and 2003, is as follows (*dollars in thousands*):

	COMPENSATED ABSENCES
Year Ended June 30, 2004	
Liabilities at June 30, 2003	$ 78,482
New obligations	35,355
Reclassification to current	(35,036)
Liabilities at June 30, 2004	$ 78,781
Year Ended June 30, 2003	
Liabilities at June 30, 2002	$ 73,885
New obligations	37,768
Reclassification to current	(33,200)
Liabilities at June 30, 2003	$ 78,482

Payments are generally made from a variety of revenue sources, including state educational appropriations, grants and contracts, auxiliary enterprises and endowment income, or other revenue sources that support the employee's salary.

8. ENDOWMENTS AND FOUNDATION GIFTS

The Regents' Endowments

Endowments are administered either by the University or by campus foundations. The financial activities of the separately incorporated campus foundations are not included in the University's financial statements until such time as gifts are transferred from the campus foundations to the University.

The endowments held by The Regents are administered on a systemwide basis, and related investments are not reflected on UCLA's separate financial statements.

The portion of investment returns earned on endowments held by The Regents and distributed each year to support current operations is based upon a rate (stated in dollars per share) that is approved by The Regents. The total distribution from endowments held by The Regents to UCLA was $28.6 million and $28.5 million for the years ended June 30, 2004 and 2003, respectively.

Campus Foundation

Under University policies approved by The Regents, each individual campus may establish a separate foundation to provide valuable assistance in fund-raising, public outreach and other support for the missions of the campus and the University. Although independent boards govern The UCLA Foundation, its assets are dedicated for the benefit of UCLA.

During the years ended June 30, 2004 and 2003, gifts of $85.8 million and $79.9 million, respectively, were transferred to UCLA from The UCLA Foundation. At June 30, 2004, The UCLA Foundation's net assets were $931 million.

9. OPERATING EXPENSES BY FUNCTION

Operating expenses, by functional classification, for the years ended June 30, 2004 and 2003, are as follows (*dollars in thousands*):

	2004	2003
Instruction	$ 790,575	$ 762,835
Research	551,255	536,878
Public service	62,608	45,313
Academic support	255,693	250,806
Student services	53,182	54,998
Institutional support	99,838	104,282
Operations and maintenance of plant	66,571	67,750
Student financial aid	69,575	75,865
Medical centers	870,463	830,695
Auxiliary enterprises	184,298	181,009
Depreciation	170,344	163,949
Other	11,788	7,249
Total operating expenses	$ 3,186,190	$ 3,081,629

10. THE RETIREMENT PLAN

Most University employees participate in the University of California Retirement System (UCRS). The UCRS consists of a single-employer defined benefit plan funded by University and employee contributions, a defined benefit plan for University employees who elected early retirement under the Public Employees Retirement System Voluntary Early Retirement Incentive Program (PERS-VERIP) and two defined contribution plans with several investment portfolios funded by employee non-elective and elective contributions. The Board of Regents is the trustee for all UCRS and PERS-VERIP funds. Accordingly, these funds are separately identified in the systemwide annual financial report.

11. COMMITMENTS AND CONTINGENCIES

Commitments

Amounts committed but unexpended for construction projects totaled $937.6 million and $1,024 million at June 30, 2004 and 2003, respectively.

UCLA leases land, buildings and equipment under agreements recorded as operating leases. Operating lease expenses for the years ended June 30, 2004 and 2003, were $15.3 million and $41.7 million, respectively. The terms of operating leases extend through May 2014.

Future minimum payments on operating leases with initial or remaining noncancelable terms in excess of one year are as follows (*dollars in thousands*):

YEAR ENDING JUNE 30	MINIMUM ANNUAL LEASE PAYMENTS
2005	$ 10,592
2006	10,522
2007	9,332
2008	8,038
2009	3,667
2010–2014	5,271
2015–2019	-
Total	$ 47,422

Contingencies

Substantial amounts are received and expended by the University, including its medical centers, under federal and state programs and are subject to audit by cognizant governmental agencies. This funding relates to research, student aid, medical center operations and other programs. University management believes that any liabilities arising from such audits will not have a material effect on the University's or UCLA's separate financial positions.

The University is contingently liable in connection with certain other claims and contracts, including those currently in litigation, arising in the normal course of its activities. Although there are inherent uncertainties in any litigation, University management and general counsel are of the opinion that the outcome of such matters will not have a material effect on the University's or UCLA's separate financial positions.

Art Director, Wanda D. Maioresco Decca. Charts and pies, Valentin Sahleanu.

On the cover, clockwise from top left: *Banksia serrata*, detail (see page 11 for complete caption info); Cyril Power, *The Tube Staircase*, detail (see page 33); Tsukioka Yoshitoshi, *Ushiwaka and Benkei Dueling on Gojo Bridge*, detail (see page 22); Abraham Sutzkever, *Beneath the Trees: Poems*, detail (see page 22); Pablo Picasso, *Tête de Femme*, detail (see page 25) ©2004 Estate of Pablo Picasso/Artists Rights Society (ARS), New York; *Popular Culture/Card Stunts*, Arnold Rubin Papers, 1845-1989 (bulk 1964-1989), the Kitnick-Alexander Library at the UCLA Fowler Museum of Cultural History; *Janus-headed figure*, detail (see page 5); L. Horney, *California — The Year 'Round*, detail, poster, the Department of Special Collections of the Charles E. Young Research Library.

UCLA

UNIVERSITY OF CALIFORNIA, LOS ANGELES

Photo by ROBERT WEDEMEYER

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